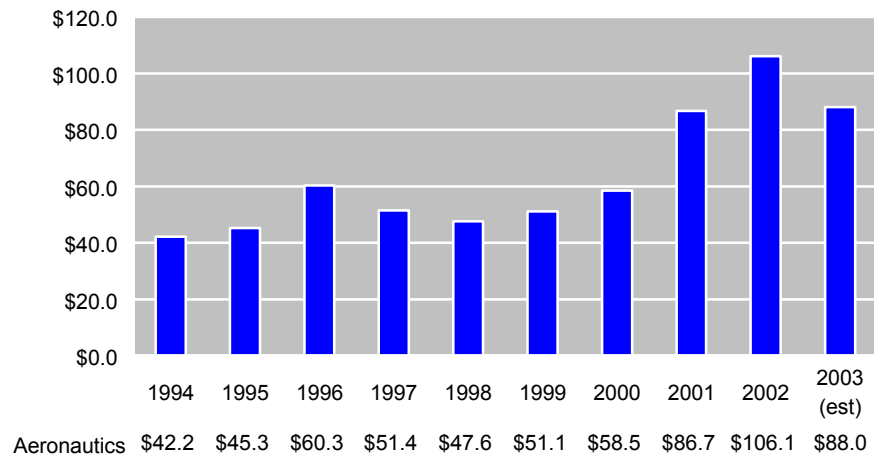
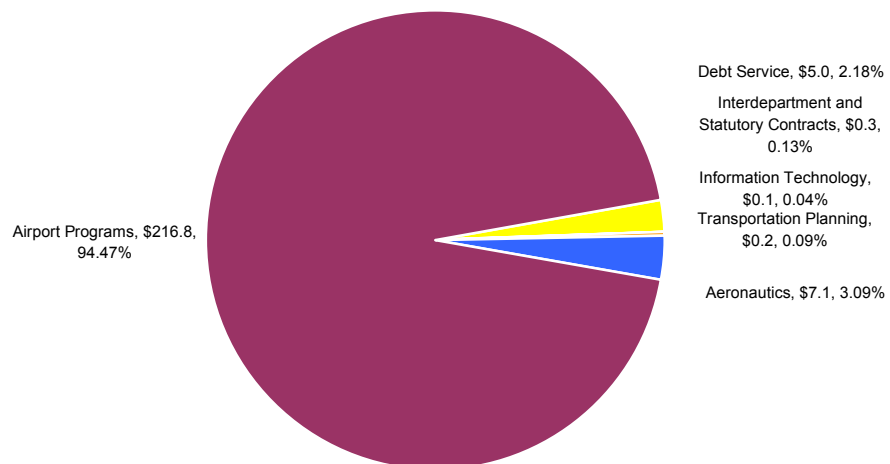


10 Year Federal Revenue Trend – Aeronautics (In millions)



- Source: MDOT CAFR
- Federal revenues have increased significantly in the last 10 years. Chart based on revenue collected.
- The Senate bill would increase airport funding to \$3.5 billion up \$100 million.

FY 2004 Aeronautics Appropriated Expenditures (In millions)



- **Total Appropriations \$229.6 million**
- Source: FY 2004 Appropriation Bill and Proposed Capital Outlay Appropriation Bill

What Does \$1 Million Dollars buy?

- 3 1/3 “urban” buses
- 1/10 mile of a 8 lane highway
- 2 1/2 miles of new railroad track
- 1/2 mile of runway for a General Aviation Airport
- 2 1/2 miles of resurfacing a rural 2 lane road
- Let’s provide some perspective.

In conclusion

- **Transportation Funding is complex with numerous restrictions**
 - **Constitutional Restricted Transportation Revenue maintain Transportation Program Focus**
 - **One Unanswered Question – Can Revenue based on 20th Century assumptions fund a 21st Century Transportation System?**
 - Some conclusions from this overview funding restrictions make program decision complex and that in times of economic downturns constitutional restrictions prevents major diversions of transportation funding to other programs.
 - Give the demand for addition system capacity and services; the big funding question remains unanswered; will slow growth in revenues meet the demands for system maintenance and improvement
-

TEA-21 Reauthorization: Status and Outlook

Expert Speaker: **Jim Kolb, Director of Congressional Relations**
American Road and Transportation Builders Association

- | | |
|---|---|
| TEA 21
Reauthorization:
Status and
Outlook | <ul style="list-style-type: none">• Represent all kinds of folks.• Two chapters in Michigan.• Strong advocates for Michigan on the Federal level. |
|---|---|
-

- | | |
|--|---|
| TEA-21
Reauthorization
Status | <ul style="list-style-type: none">• TEA-21 expired September 30• Program extended to February 29, 2004• Bush Administration SAFETEA proposal \$247 billion• Senate reauthorization proposal \$311 billion• House T&I Committee pushing \$375 billion measure• TEA 21 – currently operating under a 5 month extension; provides 5/12's of the funding level. |
|--|---|
-

- | | |
|---|---|
| What Drives the
Funding Level
for the Highway
Program? | <ul style="list-style-type: none">• Pre-TEA-21: funding level budget driven<ul style="list-style-type: none">– highways had to compete with all other programs for discretionary funds• TEA-21 – funding levels revenue-driven<ul style="list-style-type: none">– linked to Highway Acct. revenues• Next bill – goal to make funding performance-driven• Both House and Senate have adopted some sort of this approach –based proposal on needs identified. |
|---|---|
-

- | | |
|--|--|
| Federal Highway
Funding, ISTEA
vs. TEA-21 | <ul style="list-style-type: none">• Graph of ISTEA & TEA-21• ISTEA from FY92 through FY97<ul style="list-style-type: none">– FY92: \$18.4 FY95: \$20.9– FY93: \$18.2 FY96: \$20.0– FY94: \$21.3 FY97: \$21.8• TEA-21 from FY98 through FY03<ul style="list-style-type: none">– FY98: \$21.5 FY01: \$29.9– FY99: \$25.5 FY02: \$31.8– FY00: \$27.7 FY03: \$31.6• Source: U.S. DOT; Budget of the U.S. Government, FY2004 |
|--|--|
-

**Final Transit
Funding, TEA-
21 vs. ISTEA**

- **Graph of TEA-21 vs. ISTEA**
 - **ISTEA from FY92 through FY97**
 - **FY92: \$3.8** **FY95: \$4.6**
 - **FY93: \$3.8** **FY96: \$4.1**
 - **FY94: \$4.6** **FY97: \$4.4**
 - **TEA-21 from FY98 through FY03**
 - **FY98: \$4.6** **FY01: \$6.3**
 - **FY99: \$5.3** **FY02: \$6.7**
 - **FY00: \$5.8** **FY03: \$7.2**
 - **Source: U.S. DOT**
-

**TEA-21
Reauthorization
Challenges**

- **Apportionment formulas**
 - **Environmental issues**
 - **Highway-transit equity**
 - **Passenger rail/Amtrak**
 - **Funding levels/financing mechanism**
 - Traditionally in neighborhood of 80/20-highway transit equity
 - Try to keep in this range
 - Amtrak – should create a mechanism to fund these – but not from highway dollars due to shortage of funds currently faced with
 - Intermodal (added) not getting the level of funding it needs – trying to develop different freight programs
 - Funding levels – most difficult issue
 - Currently operating under user fee based system on federal level
 - Serious concerns with this
 - Other options – debt financing (veto threat on bonding proposals circulated)
 - No easy answer on this
-

**Covering
Projected
Inflation &
Providing a 95%
Return Would
Require \$42
Billion Highway
Program**

- **Graph of Cover Inflation & Provide 95% Return**
- **Cover Inflation**
 - **FY02: \$31.8** **FY06: \$35.1**
 - **FY03: \$32.6** **FY07: \$36.0**
 - **FY04: \$33.4** **FY08: \$36.9**
 - **FY05: \$34.2** **FY09: \$37.8**
- **Provide 95% Return**
 - **FY02: \$3.8** **FY06: \$4.2**
 - **FY03: \$3.9** **FY07: \$4.4**
 - **FY04: \$4.0** **FY08: \$4.5**
 - **FY05: \$4.1** **FY09: \$4.6**
- **TOTALS**
 - **FY02: \$35.6** **FY06: \$39.3**

Continued on Next Page

- **FY03: \$36.5** **FY07: \$40.3**
- **FY04: \$37.5** **FY08: \$41.3**
- **FY05: \$38.4** **FY09: \$42.4**

- **Source: ARTBA analysis of U.S. Treasury and FHWA data**
 - Getting all of the states to 95%
 - Everyone would be held harmless
 - Clearly an issue in reauthorization – share issue
 - Donor states – make this a big issue
 - Chairman Young committed to getting to 95%
-

What are the needs?

- **USDOT 2002 Conditions and Performance report: “the overall performance of the [surface transportation] system declined from 1997 to 2000.”**
 - **To maintain current conditions, an average annual federal investment of \$53.6 billion is required**
 - Biggest challenge is funding levels and what they will be set at.
 - Formula came out a year ago.
-

Where are we today?

- **Current (FY2003) federal transportation investment:**
 - **\$31.6 billion for highways**
 - **\$7.2 billion for transit**
 - **\$38.8 billion combined**
 - **Gap of \$14.8 billion just to maintain status quo!**
 - How do you fill that gap?
-

Funding Options Mentioned for FY2004-2009

- **Transfer 2.5 cents per gallon (cpg) of gasohol tax currently deposited in general fund**
- **Reimburse HTF for 5.2 cpg ethanol subsidy**
- **Draw down Highway Trust Fund balance**
- **Credit HTF interest on cash balance**
- **Increase and/or index motor fuels tax**
- **Debt financing**
- Will cost about \$90 billion in the next 6 years.
- First item above assumed by everybody and will probably happen.
- Second item is currently a big issue in the energy bill congress is debating.
- Certainly difficult to achieve and we’re finding that out the hard way with the energy bill.
- These first two items would be \$14 billion over the next two years.
- The third item use to be a big pot of money; however spending more than getting in the last 2-3 years.

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- This item may get us about \$3 billion a year; however, not the financing mechanism a lot of people had hoped for.
 - Next last two items have always been the big issue.
-

**Revenue Impact
of All Possible
Funding Options
(including
Indexing)**

- **Graph of current-law revenues, all options, and cost to maintain**
 - **Current-law revenues**
 - FY04: \$28.9 FY07: \$32.2
 - FY05: \$30.3 FY08: \$33.1
 - FY06: \$31.3 FY09: \$34.0
 - **All options**
 - FY04: \$31.4 FY07: \$37.6
 - FY05: \$33.7 FY08: \$39.6
 - FY06: \$35.7 FY09: \$41.7
 - **Cost to maintain**
 - FY04: \$45.3 FY07: \$48.3
 - FY05: \$46.2 FY08: \$49.3
 - FY06: \$47.2 FY09: \$50.5
 - Current law revenues is kind of flat
-

**Administration's
Reauthorization
Proposal for
Highways**

- **Overall investment level of \$246 billion**
 - Highway funding = \$190.2 billion
 - Transit funding = \$46 billion
 - **Would maintain guarantees**
 - **Adds 2.5 cpg ethanol revenues from GF**
 - **Proposals on the table are:**
 - Basically status quo reauthorization
 - **Positive things are the last two items above**
-

**Highway Ob
Limits Under
Admin's \$190
Billion
SAFETEA
Proposal**

- **Graph from 1998 through 2003 and 2004 through 2009**
 - 98: 21.5 04: 29.3
 - 99: 25.5 05: 30.3
 - 00: 27.7 06: 31.3
 - 01: 29.9 07: 32.3
 - 02: 31.8 08: 33.1
 - 03: 31.6 09: 33.9
 - Not see any growth over the next 6 years; until 2007
-

- Senate Proposal**
- **Senate overall investment level of \$311.5 billion**
 - **Highway investment = \$255 billion**
 - **Transit investment = \$56.5 billion**
 - **79 Senators voted in favor of funding level**
 - **Would need new revenues, looking at issuing bonds, tolling**
 - Senate has taken a needs-based approach
 - Senate budget resolution debated and passed these funding levels
 - Funding gap of \$27 million
 - Expecting to see language from the environment public works committee on their bill itself; not very specific, a lot of hole and nothing on formulas or revenue enhancements. They move out of Committee first week of November and they come back in January. It will be the first bill on the floor. They recognize need to have jobs bill on the floor; however, still a lot of complications. The transit portion is controlled by the banking committee who is controlled by the financing committee.
-

- Highway Ob Limits under \$233 Billion Senate Budget Resolution Amendment**
- **Graph of TEA-21 and Senate Proposal**
 - **TEA-21 1998 through 2003**
 - **98: 21.5 01: 29.9**
 - **99: 25.5 02: 31.8**
 - **00: 27.7 03: 31.6**
 - **Senate Proposal 2004 through 2009**
 - **04: 35.5 07: 39.5**
 - **05: 36.9 08: 41.2**
 - **06: 38.1 09: 42.0**
 - Interesting that this is similar to chart with 95% control.
 - On this amendment only donor states would grow.
 - Every state would be going to the state apportioned fund.
 - Even under this proposal need to find a different funding level.
-

- Proposal by Rep. Young & Bipartisan Leadership of House T&I Committee**
- **Total investment level of \$375 billion**
 - **Highway investment = \$300 billion**
 - **Transit investment = \$67.5 billion**
 - **Capture other new revenues, increase gasohol tax break, interest on balance, draw down balance**
 - **Raise gas tax a nickel per gallon and permanently index for inflation**
 - House is developing \$375 billion program
 - Only way to get funding levels is through a user fee increase (gas tax).
-

**Highway Ob
Limits under
\$300 Billion
Bipartisan T&I
Committee
Proposal**

- **Graph from 1998 through 2009**
 - **98: 21.5** **04: 40.0**
 - **99: 25.5** **05: 44.0**
 - **00: 27.7** **06: 48.0**
 - **01: 29.9** **07: 52.0**
 - **02: 31.8** **08: 56.0**
 - **03: 31.6** **09: 60.0**
 - Level of funding can do a lot with it; looking at freight and transit issues.
 - Easy for our association to be very supportive of Young's proposal.
 - Not supportive of user fee increase at this time (democratic & republican).
 - Getting bill done by February;— doesn't want to lose construction period.
-

**Proposed
Funding for
Highway and
Mass Transit
Programs, 6-
Year Totals**

- **Graph of TEA-21, SAFETEA, Bud. Res., Senate, House T&I**
 - **TEA-21: \$218**
 - **SAFETEA: \$247**
 - **Bud. Res.: \$267**
 - **Senate: \$311**
 - **House T&I: \$375**
 - Quick sum-up: different proposal on the table.
-

**Weekly Change
in Retail Price of
Gasoline,
January 2001 -
June 2003**

- **Graph of weekly retail price of gasoline changes.**
 - Doesn't fit very well; however, I like to put this in the presentation.
 - Looking at average of 2-3 cents per week.
 - Just a chart they use; if 2 cent increase on gas tax occurred, it would be hard that that public would feel it.
-

Bottom Line...

- Significant range of possible outcomes
 - Current projected revenues would support a six-year \$190 billion highway program and status quo transit program
 - **Senate at \$311, House at \$375 – reasonable scenario somewhere in between**
 - **T&I plan is brass ring and worth the fight**
 - Fully support the T&A plan out there.
 - How we're going to pay for it and be divided among the states.
-

**Q&A for
Myron's and
Jim's
Presentation**

- Q What's the best estimate of what will happen in February and what can Michigan do to help you be successful?
- A The congressional schedule will be very tight. The House has no intention of marking up the bill soon. Tough to see it getting done, it's recognized as a job producing bill. There is a push to get it done, however, its hard to say because the timing is tough but the will is there. A short term extension may be needed. Michigan is very outspoken on the 95% and it will take a lot of additional revenues. Continuing to push members of congress and we have support from the governor. Michigan as a state has been very effective and is pushing it forward.
- Q Chairman Young is very adamant about not producing a bill that would be inadequate; what about a one year bill that would allow a gas tax increase after the election?
- A From our perspective we would entertain looking at postponing this, but at this point it seems to be going full steam ahead. We don't want a bill just to get a bill and Speaker Hasker has been very clear on this and wants full reauthorization. However, getting there is going to take figuring out how to pay for it. This Republican legislation does not want a legacy of increasing taxes.
- Q Up to 10% of the Comprehensive Transportation Fund can go to the EDF; what percentage of the entire of CTF is going to EDF? What other transportation programs are funded out of EDF?
- A It is less than 10% because of production and hierarchy of other programs. The CTF is also freight and port assistance. I don't have the charts with me, however, the primary of CTF is the transit system but there are other modals in there as well.
- Q What's a reasonable amount of federal gas tax, towing?
- A On the gas tax, Chairman Young's proposal identified gas tax and also looking at all financial opportunities. Towing is part of the mix. There was a pilot program in one state, however, it didn't work. Index the gas tax to back where it was in 1993, and then increase every year by about 1-2 cents. Interested in any revenue source focused on the needs.
- Q 2004 MTF Revenue sources; does the constitution restricted 90% apply to all of that money or just the gas tax revenue portion of it?
- A Money that goes into MTF is all constitution restricted; EDF & CTF are there for illustration purposes.
- Q On the Federal reauthorization where does your association stand on the federal match program? With the House's proposal of a 50/50 match or the Senate's at 80/20 match?
- A Our association's perspective supports the current 80/20 match since State match levels have increased. Reason of increase is because of guarantee funding.

Road Funding: The Local Perspective

Expert Speaker: **Brent O. Bair, Managing Director, Road Commission for Oakland County**

Michigan vs. Nation:

- **Michigan =**
 - 6th largest road system in US
 - 5th largest local road system
 - 27th largest state highway system
 - Above average for the largest road system in U.S.
-

Michigan's Road Mileage

- **State (MDOT):** 9,715 miles
 - **City & village:** 20,750 miles 92%
 - **County road commissions:** 89,750 miles
 - **Total:** 122,722 miles
 - (includes 2,102 miles of fed. roads)
 - Locals are responsible for 92%.
-

Roads: Still a high priority with voters

- A March '02 *Detroit News* poll ranked roads the **No. 3** priority for Michigan's voters.
 - Road condition and congestion were cited as the reasons.
 - Roads ranked behind economy.
-

Why are Michigan's roads in the condition they are in? Why are other states' roads in better shape?

- We get this question from residents of Michigan that go to other states on vacation.
-

Per Capita State & Local Expenditures (Michigan's Rank in the Nation)

- | Expenditures | 1964 | 1974 | 1984 | 1988 | 1992 | 1998 |
|--------------|------|------|------|------|------|------|
| Health | 5 | 8 | 9 | 3 | 12 | 15 |
| Education | 11 | 7 | 10 | 7 | 11 | 9 |
| Welfare | 31 | 5 | 3 | 8 | 17 | 26 |
| Roads | 43 | 44 | 42 | 44 | 49 | |
- Go back 40 years
 - Ranked well for spending
 - Bottom 10 states for spending on roads
 - Still in the bottom 9 states

1998	<u>Road Expenditures</u>	<u>Mich.'s Rank in Nation</u>
Per Capita State	State & Local combined	42nd
& Local	<u>Local only</u> (statewide)	13th
Road	<u>State only</u>	50th
Expenditures	<ul style="list-style-type: none"> • Census bureau data – after the gas tax • Local above average • State absolute bottom 	

BOTTOM • **Michigan's roads won't catch up with those in other states as long as**
LINE: **Michigan ranks in the bottom 10 in per capita state road funding.**

State Gas Taxes	Rank	State	Gas	Rank	State	Gas
(2002)	1	Wisconsin	28.1	26	Iowa	20.1
	2	Rhode Island	28	27	Louisiana	20
	3	Montana	27	27	Minnesota	20
	4	Pennsylvania	26.6	27	Texas	20
	5	Connecticut	25	27	Vermont	20
	6	Idaho	25	31	Illinois	19
	7	Nebraska	24.5	--	--	--
	7	Utah	24.5	33	Arizona	18
	9	Nevada	24	33	California	18
	9	Oregon	24	33	Mississippi	18
	11	Maryland	23.5	33	New Hampshire	18
	12	Delaware	23	37	Virginia	17.5
	12	Kansas	23	38	Missouri	17
	12	Washington	23	38	New Mexico	17
	15	New York	22.6	40	Alabama	16
	16	N. Carolina	22.1	40	Hawaii	16
	17	Colorado	22	40	Oklahoma	16
	17	Maine	22	40	S. Carolina	16
	17	Ohio	22	44	Indiana	15
	17	S. Dakota	22	44	Kentucky	15
	21	Arkansas	21.5	46	Wyoming	14
	22	Tennessee	21.4	47	Florida	13.9
	23	Massachusetts	21	48	New Jersey	10.5
	23	N. Dakota	21	49	Georgia	10.23
	25	W. Virginia	20.5	50	Alaska	8

State Diesel Taxes (2002)	Rank	State	Diesel	Rank	State	Diesel
	1	Pennsylvania	31.8	26	Louisiana	20
	2	Rhode Island	28	26	Minnesota	20
	3	Montana	27	26	Texas	20
	3	Nevada	27	29	Tennessee	18.4
	5	Florida	26.4	30	Connecticut	18
	6	Idaho	25	30	Arizona	18
	6	Kansas	25	30	California	18
	8	Nebraska	24.5	30	Mississippi	18
	8	Utah	24.5	30	New Hampshire	18
	10	Maryland	24.3	30	New Mexico	18
	11	Oregon	24	36	Vermont	17
	12	Washington	23	36	Missouri	17
	12	Maine	23	36	Alabama	17
	14	Arkansas	22.5	39	Virginia	16
	14	Iowa	22.5	39	Hawaii	16
	16	N. Carolina	22.1	39	S. Carolina	16
	17	Delaware	22	39	Indiana	16
	17	Ohio	22	--	--	--
	17	S. Dakota	22	44	Wisconsin	14
	20	Illinois	21.5	44	Wyoming	14
	21	Massachusetts	21	46	New Jersey	13.5
	21	N. Dakota	21	47	Oklahoma	13
	23	New York	20.9	48	Kentucky	12
	24	Colorado	20.5	49	Alaska	8
	24	West Virginia	20.5	50	Georgia	7.5

- Michigan's diesel tax is the lowest in the nation
- Money locals use

The fuel tax is the most equitable way to fund roads in Michigan because:

- It's a "user" tax (the more you use the roads, the more you pay); and
- Michigan hasn't exhausted the fuel tax as a funding mechanism.

Revenue vs. Inflation: We have a problem!

- Between '98 and '02:
State gas tax revenues increased A TOTAL of 2.3%. = Less than the rate of inflation.
- From '01 to '02:
Gas tax revenues went DOWN 1.5%.
- 26-year average, '76 to '02:
Gas tax revenues went DOWN 1.9% in real dollars.
- Expenses going up:

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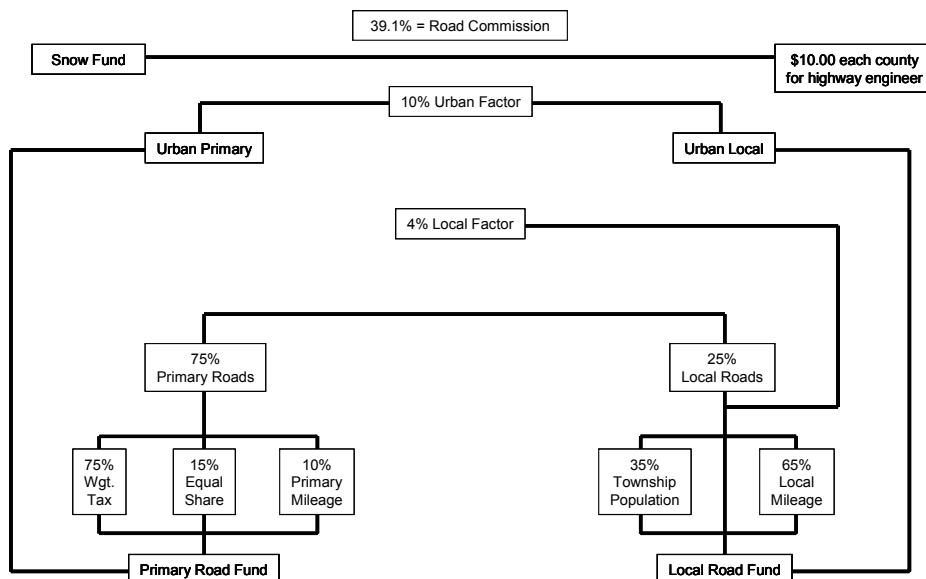
Construction costs increased an average of 2.7% per year, 1997-2001.

- Growth in tax
- 2.3% total for 4 years
- Less than inflation

**MTF (Act 51)
Distribution
Formula (\$1.9
Billion - 2002**

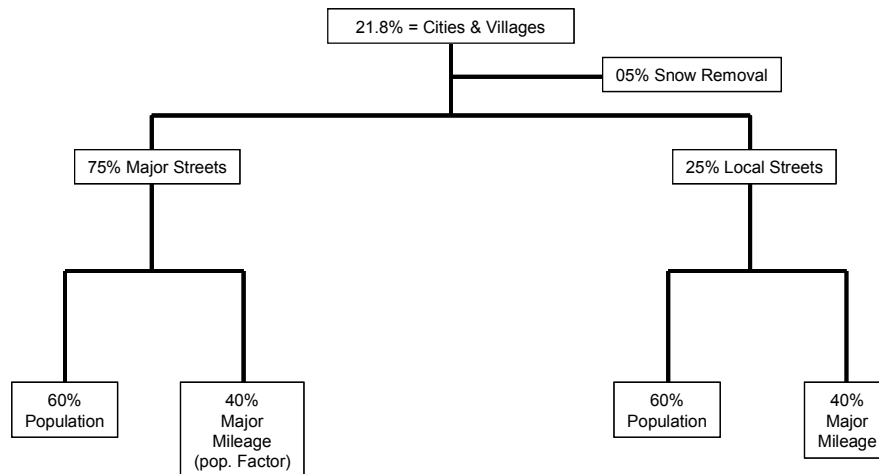
- **Deductions:**
 - Administration **\$68.7 million**
 - Recreation **18.5 million**
 - Critical Bridge Fund **7.4 million**
 - RR Crossing **3.0 million**
 - Economic Development Fund **40.3 million**
 - Local Road Program **33.0 million**
 - Mass Transit **157.5 million**
 - MDOT Bridges **50.0 million**
 - MDOT Debt **43.0 million**
- **Remainder 1.5 Billion:**
 - MDOT - 39.1% - \$586.5 mil.
 - Road Commission - 39.1% - \$586.5 mil.
 - Cities/Villages – 21.8% - \$327 mil.
- Focus is on road commission gets their dollars.

**Road
Commissions
Internal
Formula**



- Divide between primary and local
- Other changes came along – engineer – snow removal
- Urban counties – not enough for congestion problem
- Another split to fund local roads more
- Difficult to changes this formula

City & Village Internal Formula



- Population factor
- Local side 60/40
- Special snow fund

How locals spent their road funds (02)

Expenditure	CRCs	C/Vs
Construction	\$ 79 mil. (7%)	\$261 mil. (41%)
Maint. (incl. heavy)	\$707 mil. (60%)	\$214 mil. (34%)
Traffic Control	\$ 35 mil. (3%)	\$ 42 mil. (7%)
Winter Maint.	\$ 71 mil. (6%)	\$ 35 mil. (6%)
Trunklines	\$115 mil. (10%)	\$ 9 mil. (1%)
Debt service	\$ 34 mil. (3%)	\$ 23 mil. (4%)
Other	\$128 mil. (11%)	\$ 47 mil. (7%)

- Winter maintenance – in the spring nothing to show for it

Statewide local road needs:

	Needs <u>1998-2008</u>	Expected Funding <u>1998-2008</u>	Funding <u>Gap</u>
County Roads	\$29.7 billion	\$1.9 billion	\$27.9 bil.
City, Village Streets	\$19.3 billion	\$3.4 billion	\$15.9 bil.

- **Source:** “Michigan Roads, Streets and Bridges: Ten-Year Investment Requirements”
- Public Sector Consultants Inc., March 2000.

State Road Funding “Donor” Status

**% of Road Funding Returned from Lansing
(3-yr. Avg., 97-99)**

<u>County</u>	
Oakland	72%
Wayne	86%
Macomb	77%
Kent	93%
Genesee	80%
Small rural	100% +

- All large urban counties are donors.
- Money goes to small rural counties.

**Local
Distribution
of Federal
Funds**

- **Local Programs = 25%**
- **MDOT Programs = 75%**
- **Excluding CMAQ, Enhancements, Demo, Discretionary and Bridge**

**Michigan
Apportionments
FY 2002**

• <u>Major Category</u>	<u>Amount (millions)</u>
• Interstate Maintenance	\$162.4
• National Highway System	\$196.2
• Surface Transportation (STP)	\$275.3
• Bridge	\$136.2
• Congestion Mitigation/Air Quality (CMAQ)	\$ 39.6
• Minimum Guarantee	\$105.2
• State Planning & Research	\$ 18.7
• Metropolitan Planning	\$ 6.8
• Recreational Trails	\$ 1.5
• High Priority Projects	\$ 58.5
• Allocated Programs (Discretionary)	<u>\$ 6.9</u>
• Total:	\$1007.3

**The Surface
Transportation
Program (STP)**

- **Largest source of funds for major state, county & city/village road improvement projects.**
- **Projects selected by federal aid task forces.**

**STP
Distribution**

- **13 MPOs**
 - **5 in areas with population of 200,000 or more**
 - **Includes 7 metro areas: Detroit, Grand Rapids, Flint, Lansing, Ann Arbor, Toledo-Monroe, South Bend**
 - **8 in areas with population under 200,000**
- **53 Small Urban areas (cities of 5,000-50,000 that are not part of larger metro areas)**

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